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C O N F I D E N T I A L SECTION 01 OF 03 KINSHASA 001396

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DEPT PASS TO OPIC (JEDWARDS)

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TAGS: [EFIN](#) [EAID](#) [ECOR](#) [PGOV](#) [CG](#)
SUBJECT: IMF AND WORLD BANK PROGRAMS IN HOLDING PATTERN

REF: A. KINSHASA 968

[1](#)B. KINSHASA 216

Classified By: EconOff W.Brafman for reasons 1.4 b/d.

[1](#)1. (SBU) Summary. Representatives of the IMF and World Bank (WB) say their institutions' programs in the DRC are essentially in a holding pattern. IMF Resident Representative Xavier Maret said the fund's current focus is on helping the DRC maintain macroeconomic stability, while WB Resident Representative Jean-Michel Happi said the WB is concentrating on more closely monitoring programs and projects already launched. End summary.

IMF - TRYING TO KEEP DRC'S ECONOMIC STATUS QUO

[1](#)2. (SBU) The visiting DRC Desk Officer and EconOffs met with the IMF and World Bank resident representatives in Kinshasa August 10. IMF resident representative Xavier Maret discussed the Staff-Monitored Program, the GDRC's 2006 budget and monetary policy, and the impact of these policies and current events on exchange and inflation rates. Maret said that the SMP, which became effective April 1 (reftel A), focuses on maintaining economic stability rather than implementing structural reforms or other new measures. He said it will give the GDRC a chance to "clean the slate," that is, to complete conditionalities left unmet during the Poverty Reduction and Growth Facility Program that was suspended March 31. Specific goals include helping the GDRC to keep spending within budgetary limits and to avoid recourse to domestic bank funding of expenditures. No Fund disbursements will occur during the SMP, which will continue until at least the end of 2006. Some progress has already occurred; the GDRC presented its final Poverty Reduction Strategy Paper (PRSP) to the IMF and WB in July.

BUDGET

[1](#)3. (SBU) Maret said the GDRC kept within its budget in May and June, following spending overruns in March and April. He expects that heavy election spending will lead to July and August budget overruns. He also noted that the GDRC has not yet given the IMF an itemized explanation of overspent budget lines, such as military expenditures. To curb both the overspending and its parallel problem, corruption, Maret said the GDRC needs to develop administrative reform legislation, such as adopting a transparent military procurement process.

MONETARY POLICY, EXCHANGE AND INFLATION RATES

¶4. (SBU) Maret was optimistic about the GDRC's inflation rate for 2006. According to the IMF's calculation, inflation is currently at 6.9 percent cumulative for the year, and at 8 percent annualized, below the IMF's June 2006 projection of 9.5 percent. These figures currently only reflect Kinshasa prices, but the IMF is trying to obtain price index figures from other provinces. However, Maret expressed some frustration that the Congolese Central Bank (BCC) has not made a decision about adopting a more restrictive monetary policy to keep inflation in check, noting that in the past few months the monetary base has increased. The BCC has a low level of less than three weeks of foreign exchange reserves, but Maret said that this amount has held steady since the IMF's last disbursement at the end of 2005.

¶5. (SBU) Maret also said that the Congolese franc's (CF) recent devaluation is likely due in part to the high demand for dollars surrounding heavy spending in the election period (comment: a view that Post shares). Over the past weeks, the CF has gone from less than 440/USD to about 470/USD. (Note: Despite this demand, local banks have been able to meet their USD needs, which are currently about USD 5 million per day on the local foreign exchange market rather than through the BCC. End note.)

WORLD BANK - NO NEW FUNDING

¶6. (SBU) World Bank (WB) Resident Representative Jean-Michel Happi discussed the current status of WB projects and funding

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in the DRC, obstacles to sectoral reform, post-election plans, and a recent internal investigation. He said that from his perspective (comment: contrary to other WB information) the WB did not decide to suspend funding during the transition and election period but rather intentionally committed all available funds by early 2006 to avoid giving the GDRC the opportunity to engage in ill-considered spending around the election period. He said the WB has increased financial controls on ongoing projects as another check on spending.

SECTORAL REFORM SLOW

¶7. (SBU) Happi explained that sectoral reforms have moved slowly for legislative, political and internal reasons. One cause for delay, he said, is that Parliament did not pass draft legislation to implement good governance measures. He noted that, while the WB has been emphasizing good governance, the GDRC has resisted extensive involvement of the international community in this issue. Happi also said that he expects that vested interests in specific sectors will try to block reform, although he did not provide specific examples.

¶8. (SBU) A pending internal WB investigation has also slowed sectoral reform, Happi said. For example, the WB postponed support for the GDRC's program to reduce or eliminate school fees, a project that Happi described as "ambitious" because of the investigation of BCECO, the GDRC's main implementer of WB-funded projects. WB internal affairs investigators were in Kinshasa in March 2006 conducting the investigation. Happi said he expects the results of the investigation soon, but is not yet party to the exact subjects investigated or the findings. (Note: Within the diplomatic community in the DRC, the BCECO is widely considered to be mismanaged and corrupt. End note.)

¶9. (C) Happi responded rather vaguely in response to EmbOffs' inquiry about the WB's plans to provide additional support

for the DRC's Disarmament, Demobilization, and Re-integration program (DDR). Although nearly USD 50 million remains available for the program, these funds are not currently being disbursed. As a partial explanation for the delay, Happi claimed the WB is more concerned about evaluating whether DDR, particularly reintegration, has been effective in light of the limited capacity of some areas to support new economic activities that the program helped many demobilized soldiers launch. (Note: At a separate, later meeting, Happi admitted to USAID that overspending has occurred in the disarmament and demobilization portions of DDR and that substantial fraud and funding misuse is occurring, such as in the field of air transport contracting. End note.)

MINING AND TELECOMMUNICATIONS SECTORS

¶10. (SBU) Reform in extractive industries and telecommunications sectors has stalled, primarily because these are lucrative fields over which Congolese officials are loathe to cede control. The telecommunications sector has received over half of total foreign direct investment in the DRC during the last four years, according to Maret, and accordingly generates substantial regulatory fees and other income for the GDRC. Hence, the GDRC and the telecommunications parastatal, OCPT, resist reform that would ultimately reduce their revenue. Nevertheless, Happi and Maret both seemed to think that, despite the challenges (such as the expense of paying for employees' severance packages), OCPT should be disbanded. Maret noted that OCPT provides little actual service, in a country where landlines essentially no longer exist. The regulatory fees that the major companies pay only serve to subsidize OCPT.

¶11. (SBU) Some reform has already occurred in the mining sector, but it has been slow. COPIREP, the World Bank-funded GDRC agency developed post-transition to reform parastatals, delayed for many months the installation of a new, expatriate management in Gecamines (the DRC's copper/cobalt mining parastatal), permitting many mining agreements to be signed during the delay. One of the WB's goals in installing the new Gecamines management was to freeze the signing of contracts to allow for a review and analysis of prior mining

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agreements. (Note: The WB did manage, however, to commission financial and legal assessments of Gecamines' existing contracts, and it is reviewing, but has not publicly released, that recently completed report. End note.)

¶12. (C) Happi tried to put in a positive light the difference between the WB's reform goals for Gecamines and those of Gecamines' current CEO, Paul Fortin, who assumed his duties in January 2005 (reftel B). The WB's intent - and that of much of the international community - was for Gecamines to transform from a mining company to a holding company for Gecamines' assets and liabilities, including the transfer of its "social infrastructure" (e.g. ceding control of its hospital to the City of Lubumbashi). However, Fortin continues to say publicly that his (comment: unrealistic) goal is for Gecamines to increase its mining operations rather than terminate them. Happi claimed that Fortin's goals are merely part of a medium-term strategy to utilize Gecamines' existing assets, such as its equipment. (Comment: However, Happi's comment seemed to be a revisionist attempt to harmonize the clear difference between Gecamines' management goals and the WB's. End comment.)

COMMENT

¶13. (SBU) Despite ongoing problems with GDRC overspending and the possible misuse of Bank funds, both resident representatives were hopeful that when a newly-elected government is in place, the DRC will be in a position to negotiate a new PRGF and to once again use WB funds to

implement the GDRC's recently completed Poverty Reduction Strategy Paper. In the meantime, the GDRC must adhere to its budget, while the WB should resolve its internal problems, ensure better program management, and focus on sectoral reform. End comment.

MEECE